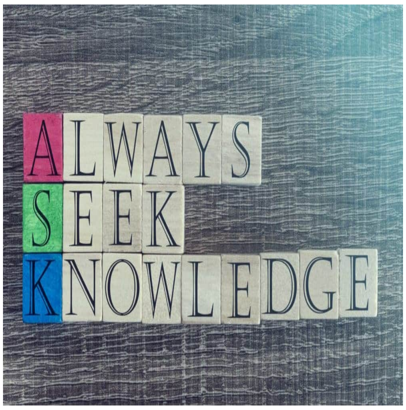

Should You Buy Toronto-Dominion Bank (TSX:TD) or Fortis Inc. (TSX:FTS) for Your RRSP?

Description

Canadian savers are searching for ways to boost the size of their retirement fund.

Buying stocks inside a self-directed RRSP is a popular strategy, especially for investors who find themselves in higher marginal tax brackets. Contributions can be used to reduce taxable income and any distributions or capital gains that occur inside the RRSP are not taxed until you start to remove the cash.

In the case of dividend stocks, many investors use the payouts to acquire more shares. This takes advantage of a compounding process that can turn a modest initial investment into a large retirement stash over the course of two or three decades.

Let's take a look at **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **Fortis** (TSX:FTS)(NYSE:FTS) to see if one might be an interesting RRSP pick right now.

TD

TD just reported strong fiscal Q4 2018 results. The bank generated adjusted net income of $3.05 billion for the three-month period, compared to $2.6 billion in Q4 2017. Canadian retail banking net income increased 5% to $1.7 billion, while U.S. retail banking operations saw profits surge 40% to $1.14 billion.

Rising interest rates in both Canada and the United States are helping TD's net interest margins. Lower taxes in the U.S. also contributed to the big gains south of the border.

Management is confident the company will deliver annual earnings gains of 7-10% over the medium term and dividend increases should continue at a steady pace. TD has raised the payout by more than 11% per year on average over the past two decades. The current distribution provides a yield of 3.7%.

A $10,000 investment in TD 20 years ago would be worth more than $105,000 today with the dividends reinvested.

Fortis

Fortis operates power generation, electric transmission, and natural gas distribution assets in Canada, the United States and the Caribbean.

The company gets the majority of its revenue from regulated assets, which means cash flow should be predictable and reliable. Two large acquisitions in the U.S. in recent years diversified the asset base and the company now generates a majority of its revenue in the United States.

Fortis also grows through organic developments. The company has a $17.3 billion capital plan underway that should significantly boost the rate base over the next five years.

As a result, management expects cash flow to grow enough to support dividend increases of at least 6% per year over that time frame. That's pretty good forward guidance and investors should feel comfortable with the outlook. Fortis has increased the payout every year for more than four decades.

A $10,000 investment in Fortis 20 years ago would be worth more than $100,000 today with the dividends reinvested.

Is one a better bet?

Both TD and Fortis should be solid buy-and-hold picks for a self-directed RRSP portfolio. At this point, TD appears oversold after the pullback and likely offers better dividend growth in the next few years. If you only buy one, I would probably make TD the first pick today.

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